

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date:

GAIN Report Number:

Philippines

Sugar Annual

Situation and Outlook

Approved By:

William G. Verzani

Prepared By:

Pia A. Ang

Report Highlights:

Sugar production, trade and domestic prices are largely governed by the Sugar Regulatory Administration (SRA), a government agency under the Philippine Department of Agriculture. According to SRA data, the current average mill-site price for domestic raw sugar is roughly double the world market price. Without any expansion in production area foreseen by SRA, Post expects MY 2014/15 and MY 2015/16 raw production to remain at the MY 2013/14 level of 2.5MMT (assuming favorable weather). Industry contacts expect domestic consumption to modestly rise in MY 2014/15 and MY 2015/16 due to continued economic growth and expanding demand from the rapidly developing food processing industry. Post forecasts total exports for MY 2014/15 at 300,000 MT (up 50,000 MT from the previous year) due to rising world market prices.

Commodities:

Sugar Cane for Centrifugal
 Sugar, Centrifugal

Production:

Raw sugar production in MY 2013/14 reached 2.54 MMT, up eight percent from the previous year. The increase was mainly due to favorable weather conditions, rising yields and increased milling towards the end of calendar year (particularly in November).

RAW SUGAR PRODUCTION AND CONSUMPTION			
Market Year December/November (in Metric Tons)*			
	2011/12	2012/13	2013/14
Production	2,398,917	2,384,906	2,539,205
Withdrawals	2,130,347	2,147,215	2,268,551

Source: Philippine Sugar Regulatory Administration

*As of April 2013, USDA revised the official Marketing Year from September/August to December/November

Without any significant expansion in production area foreseen, MY 2014/15 raw sugar output is forecast to remain at about the same level as the previous year, assuming favorable weather conditions. SRA recently reported a possible decline in crop year 2015/16 (September/August) production due to an ongoing dry spell. As a result, Post forecasts MY 2015/16 production to remain flat at roughly 2.5 MMT despite increased production incentives provided by the new Sugarcane Industry Development Act (see Policy section).

MONTHLY RAW SUGAR PRODUCTION (Metric Tons)				
	2011-12	2012-13	2013-14	2014-15
December	328,134	439,759	420,589	281,589
January	392,033	358,146	334,607	334,084
February	364,213	394,651	401,960	401,959
March	344,790	389,071	467,884	202,653*
April	252,634	209,704	201,754	
May	98,457	64,050	82,124	
June	27,934	15,602	23,862	
July	4,170	343	5,564	
August	537	4,497	14,381	
September	73,528	83,353	101,576	
October	208,478	185,82	158,494	
November	304,009	239,909	326,410	
TOTAL	2,398,917	2,384,906	2,539,205	

*Through March 8th only

Based on SRA estimates, Crop Year (CY) 2014/15 (September-August) sugarcane production area increased slightly to 424.5 thousand hectares (from 423.3 thousand hectares the previous year) and cane harvest will likely reach 24.5 MMT.

RAW SUGAR & SUGARCANE PRODUCTION and AREA PLANTED			
Crop Year September/August			
	2012/13	2013/14	2014/15
RAW SUGAR PRODUCTION (MT)	2,461,838	2,461,808	2,465,000
SUGARCANE MILLED (MT)	24,859,000	24,866,200	25,000,000
TOTAL AREA PLANTED (HAS)	424,132	423,334	424,474

Source: Philippine Sugar Regulatory Administration- 2012/13 and 2013/14 final, and 2014/15 preliminary estimates

The island of Negros continues to account for the majority (57 percent) of domestic sugar production, followed by Mindanao with 19 percent and Luzon with 14 percent. Roughly 90 percent of total Philippine production comes from four sugar planter federations and three miller associations. There are 27 sugar mills (running at roughly 60 percent capacity) and 13 sugar refiners (running at about 73 percent capacity) in the country.

According to the SRA, there are about 65,000 sugarcane farmers in the country. Of these, 80 percent have landholdings less than five hectares in size (due to the Comprehensive Agrarian Reform Program) and less than one percent have farms greater than 100 hectares. Being a plantation crop, farms of more than 100 hectares have an average productivity of 7.34 MT/ha, while smaller farms of less than 5 hectares have a much lower productivity average of 5.03 MT/ha.

While there is no formal domestic trade in sugarcane due to the unique “quedan” system (see Marketing section) in the Philippines, industry sources report that, as of April 2015, a metric ton of sugarcane was valued at roughly 2,350-2,800 Philippine Pesos (\$53-63/MT at \$1=P44). In comparison, farmers in Thailand received roughly 900 Baht/MT of sugarcane (roughly \$28/MT) in 2014.

Wholesale and retail prices of raw and refined sugar in Metro Manila follow:

RAW AND REFINED SUGAR PRICES				
	Raw Sugar		Refined Sugar	
	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/per Kg.)	Wholesale Price (Pesos/per 50 Kg. Bag)	Retail Price (Pesos/per Kg.)
MY 2013/14				
December	1,650.00	39.00	2,030.00	47.00
January	1,630.00	39.00	2,020.00	47.00
February	1,600.00	39.00	2,000.00	47.00
March	1,700.00	41.50	2,030.00	48.00
April	1,750.00	41.50	2,150.00	49.00
May	1,850.00	40.00	2,250.00	49.50
June	1,850.00	43.50	2,300.00	49.50
July	1,800.00	43.50	2,300.00	50.00

August	1,800.00	43.50	2,295.00	51.50
September	1,700.00	43.50	2,230.00	51.00
October	1,700.00	43.50	2,070.00	51.00
November	1,700.00	43.50	2,070.00	51.00
MY 2014/15				
December	1,700.00	43.50	2,050.00	51.00
January	1,700.00	43.50	2,050.00	51.50
February	1,700.00	43.50	2,170.00	51.50
March	1,700.00	43.50	2,200.00	51.00

Source: Philippine Sugar Regulatory Administration

U.S. Dollar to Philippine Peso Exchange Rates follows:

Exchange Rate	2012	2013	2014	March 2015
US\$=PhP	42.23	42.45	44.40	44.45

Source: Bangko Sentral ng Pilipinas

Monthly Molasses Prices at mill-site follows:

MOLASSES PRICES (Pesos/MT)	
MY 2013/14	
December	6,085
January	6,102
February	5,997
March	5,806
April	6,038
May	5,861
June	6,192
July	6,200
August	6,022
September	6,479
October	6,621
November	6,455
MY 2014/15	
December	6,483
January	7,275
February	6,415
March	7,642

Source: Sugar Regulatory Administration

Consumption:

In the Philippines, consumption is typically measured by monitoring sugar withdrawals from the mills by traders and industrial users (as mills are the main holders of the country's stocks). Sugar consumption in MY 2013/14 increased to 2.27 MMT from 2.15 the previous year. Consumption is expected to increase further to 2.28 MMT in MY 2014/15 and to 2.30 in MY 2015/16 due to expanding food processing demand, a strengthening economy and a rising population.

DOMESTIC RAW SUGAR WITHDRAWALS			
(in Metric Tons)			
MONTH	2012/13	2013/14	2014/15
December	229,174	214,155	178,726
January	185,514	213,554	194,133
February	215,486	216,768	194,721
March	250,657	310,016	118,328
April	273,794	223,747	
May	201,383	233,190	
June	195,825	201,574	
July	109,941	137,004	
August	123,630	90,624	
September	103,637	91,578	
October	126,110	152,374	
November	132,064	183,967	
TOTAL	2,147,215	2,268,551	685,908

Source: Philippine Sugar Regulatory Administration

Roughly half of all domestic sugar consumption is accounted for by industrial users, 32 percent by households and the remaining 18 percent by institutions (e.g., restaurants, bakeshops, hospital etc.).

Traditionally, the largest Philippine sugar export market is the United States, as prices under the U.S. tariff rate quota system are normally higher than world market prices. This trend has begun to reverse in recent years with sugar exported to the world market now fetching a similar price.

In MY 2013/14, the average mill-site price of "A" raw sugar for the U.S. market was P856/50-kg bag and P803/50 kg-bag for "D" raw sugar for the world market. The national average mill-site price for "B" raw sugar for the domestic market was P1,546/50-kg bag. The average composite price for all three was P1,496/bag.

Philippine Mill-Site Prices (Pesos)				
MY 2013/14	"A" US Quota	"B" Domestic	"D" World	Composite Price
December	742	1,430	777	1,338
January	752	1,411	747	1,318
February	792	1,457	783	1,383
March	811	1,520	814	1,481
April	851	1,632	837	1,605

May	906	1,710	-	1,694
June	952	1,653	-	1,639
July	700	1,623	-	1,604
August	905	1,619	-	1,605
September	956	1,518	740	1,451
October	995	1,520	866	1,461
November	915	1,459	856	1,376
Average	856	1,546	803	1,496
MY 2014/15				
December	852	1,481	756	1,413
January	875	1,486	733	1,420
February	850	1,525	808	1,456
March	841	1,595	831	1,531

Source: Philippine Sugar Regulatory Administration

Trade:

The Philippines, with close instruction from SRA, typically exports an average of 250,000 tons of sugar per year. Post forecasts total raw sugar exports to all countries (including the United States) for MY 2014/15 will reach 300,000 MT, due to increasing world market prices. FY 2014/15 exports to the United States under the tariff rate quota (TRQ) program are set at 142,160 MT Raw Value (136,201 MT Commercial Weight). MY 2015/16 raw sugar exports are forecast to remain at roughly the same levels.

The Philippines has long maintained high tariffs on raw and refined sugar imports, but significant changes are underway. Executive Order No. 892 reduced tariffs under the ASEAN Free Trade Agreement (AFTA) from 38 percent in 2010 to five percent in 2015 (see table below). This reduction in AFTA tariffs is expected to impact Philippine sugar production and trade, as other ASEAN producers, particularly Thailand, have lower production costs.

Despite the drop in AFTA duties, there are still multiple administrative barriers that are in place to restrict imports. However, as a result of the tariff reduction and increasing food processing demand, Post forecasts MY 2014/2015 documented (refined) sugar imports will reach 45,000 MT.

Hdg. No.	AHTN Code 2007	DESCRIPTION	Available CEPT Rates of Duty (%)					
			2010	Starting 01 January				
				2011	2012	2013	2014	2015
17.01		Cane or beet sugar and chemically pure sucrose, in solid form.						
		Raw sugar not containing added flavoring or coloring matter:						
	1701.11.00	-- Cane sugar:						
	1701.11.00A	--- In-Quota	38	38	28	18	10	5
	1701.11.00B	--- Out-Quota	38	38	28	18	10	5
	1701.12.00	-- Beet sugar:						

1701.12.00A	--- In-Quota	38	38	28	18	10	5
1701.12.00B	--- Out-Quota	38	38	28	18	10	5
1701.99	-- Other:						
	--- Refined sugar:						
1701.99.11	---- White:						
1701.99.11A	Containing over 65% by dry weight of sugar, In-Quota	38	38	28	18	10	5
1701.99.11B	Containing over 65% by dry weight of sugar, Out-Quota	38	38	28	18	10	5
1701.99.11C	----- Other, In-Quota	38	38	28	18	10	5
1701.99.11D	----- Other, Out-Quota	38	38	28	18	10	5
1701.99.19	---- Other:						
1701.99.19A	Containing over 65% by dry weight of sugar, In-Quota	38	38	28	18	10	5
1701.99.19B	Containing over 65% by dry weight of sugar, Out-Quota	38	38	28	18	10	5
1701.99.19C	----- Other, In-Quota	38	38	28	18	10	5
1701.99.19D	----- Other, Out-Quota	38	38	28	18	10	5
1701.99.90	--- Other:						
1701.99.90A	---- In-Quota	38	38	28	18	10	5
1701.99.90B	---- Out-Quota	38	38	28	18	10	5

Source: Executive Order 892 (2010)

Under the Uruguay Round of the WTO, the Philippines committed to a final 10th-year Minimum Access Volume (MAV) of 64,050 MT of raw sugar, with a tariff rate of 50 percent. All importation in excess of the MAV is subject to a tariff rate of 65 percent. The tariff on sugar is among the highest of all imported agricultural commodities (which essentially blocks all imports under this agreement). These Most Favored Nation (MFN) tariffs have not changed since 2005. Tariff rates follow:

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	MFN
17.01		Cane or beet sugar and chemically pure sucrose, in solid form	
		- Raw sugar not containing added flavoring or coloring matter	
	1701.11	-- Cane sugar	
		--- In-quota	50
		--- Out-of-quota	65
	1701.12	-- Beet sugar	
		--- In-quota	50
		--- Out-of-quota	50
		- Other:	
	1701.99	-- Other:	
		--- Refined sugar	
	1701.99.11	---- White	

		---- In-quota	50
		----- Out-of-quota	65
		----- Other, In-quota	1
		----- Other, Out-of-quota	1
	1701.99.19	---- Other	
		----- In-quota	50
		----- Out-of-quota	65
		----- Other, In-quota	1
		----- Other, Out-of-quota	1
	1701.99.90	---- Other	
		----- In-quota	50
		----- Out-of-quota	65

Source: Philippine Tariff & Customs Code

Policy:

Philippine sugar policy is generally controlled by the SRA, working closely with various influential industry stakeholders. During the start of each crop year, the SRA issues a central policy (known as Sugar Order No. 1) on production and marketing of sugar for the country, which allocates how much production will go to the domestic and export markets as well as for reserves. These orders are adjusted as the season progresses. A running history of SRA sugar orders may be obtained from:

http://www.sra.gov.ph/policy/#_sugar_order

Revenue Regulation No. 4-2015: The Bureau of Internal Revenue issued a new regulation imposing a 12 percent advance Value Added Tax on raw and refined sugar. The Revenue Regulation amends the previous definition of raw sugar and the corresponding VAT liability. Raw sugar was previously defined as “sugar whose content of sucrose by weight in the dry state corresponds to a polarimeter reading of less than 99.5°.

Sugarcane Industry Development Act: On March 27, 2015, Republic Act No.10659 or the “Sugarcane Industry Development Act” was signed into law. The Act promotes and supports the competitiveness of the sugarcane industry by providing P2 billion for infrastructure support programs, research and development, socialized credit, grants to cooperative farms and scholarships. The enactment of the Sugarcane Industry Development Act was initiated as the full implementation of the ASEAN Economic Integration began in 2015.

Bio-fuels Law: The Government of the Philippines’ ambitious plan for increased ethanol use has not yet met its original goal. In 2007, Republic Act 9367 (RA 9367) was signed into law which mandates the use of bio-fuels in the country. The law requires that gasoline and diesel are blended with bio-fuel at 5-10 percent and 2 percent, respectively. According to analysts, only 20-25 percent of the estimated 420 million liters of ethanol needed for the gasoline mandate (at a 10 percent blend) is currently domestically produced. Unlike biodiesel, which already has an ample domestic supply (coconut oil), most ethanol is imported from the United States, Brazil, Thailand and India to meet the mandate.

Sugar Industry Roadmap: This Philippines Department of Agriculture program promotes block farming, or the operational consolidation of small farms, to take advantage of plantation scale production. Under the convergence initiative, the DA engages other government agencies to finance and

support the industry’s priority programs. The program also aims to develop a strategically-diversified sugarcane industry that produces raw, refined and specialty (Muscovado) sugar, ethanol (potable and fuel), other sugar by-products and power.

Marketing:

Most sugar in the Philippines is produced and marketed under the long established “quedan” system. In this sharing arrangement, the sugarcane planter allocates a percentage of cane harvest (30-35 percent) to the mill in payment for the processing of the cane. As soon as the sugar is processed, the mill issues a warehouse receipt, called a *quedan*, to the farmer representing his/her share of the sugar. The warehouse receipt attests to the physical presence of the sugar in the storage facility. There are five different types of *quedans*:

- “A” Sugar allocated for the US market in compliance with US quota requirements;
- “B” Sugar for the domestic market;
- “B-1” Sugar for Food Processors/Exporters;
- “C” Sugar classified as reserve, which may subsequently be converted to either A or B as the need arises;
- “D” Sugar allocated for the world market

SRA determines the proportion of sugar that is designated for the different types of *quedan*. The “A” sugar is based on the volume of the quota allocated to the Philippines under the U.S. TRQ system and the estimated volume of production for the crop year. This is normally less than 10 percent of total domestic output. The rest of the output is classified as B or D sugar.

Because the *quedan* is a negotiable instrument and the bearer may use it to withdraw sugar stocks at any time, there is a thriving secondary market in the sale of these certificates. Upon receipt of their *quedans*, planters usually sell them immediately to local traders who in turn sell them to larger traders. The major traders accumulate the *quedans* and subsequently sell them in volume to wholesalers, distributors, or processors who withdraw sugar from the mills. The processors use the sugar as an input for food and beverage processing while the wholesalers and distributors sell their sugar to major retailers. From the retailers, the sugar eventually reaches consumers through supermarkets, wet markets and sari-sari (mom-and-pop) stores.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2013/2014	2014/2015	2015/2016
Market Begin Year	Dec 2013	Dec 2014	Dec 2016

Philippines	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	942	942	932	982	0	947
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2,450	2,500	2,500	2,500	0	2,500
Total Sugar Production	2,450	2,500	2,500	2,500	0	2,500
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	40	40	45	45	0	50
Total Imports	40	40	45	45	0	50
Total Supply	3,432	3,482	3,477	3,527	0	3,497
Raw Exports	300	250	300	300	0	300
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	300	250	300	300	0	300
Human Dom. Consumption	2,200	2,250	2,250	2,280	0	2,300
Other Disappearance	0	0	0	0	0	0
Total Use	2,200	2,250	2,250	2,280	0	2,300
Ending Stocks	932	982	927	947	0	897
Total Distribution	3,432	3,482	3,477	3,527	0	3,497
1000 MT						

Sugar Cane for Centrifugal Market Begin Year Philippines	2013/2014		2014/2015		2015/2016	
	Sep 2013		Apr 2014		Apr 2016	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	426	0	426	0	0	426
Area Harvested	422	0	425	0	0	425
Production	25,000	0	25,000	0	0	25,000
Total Supply	25,000	0	25,000	0	0	25,000
Utilization for Sugar	25,000	0	25,000	0	0	25,000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	25,000	0	25,000	0	0	25,000
1000 HA, 1000 MT						